

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Shelby</b>	County <b>Oceana</b>
Audit Date <b>2/28/05</b>	Opinion Date <b>6/27/05</b>	Date Accountant Report Submitted to State: <b>6/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

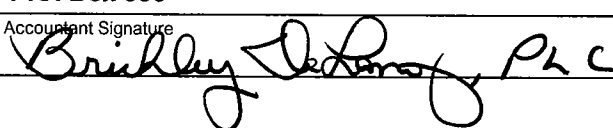
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Brickley Delong, PLC</b>			
Street Address <b>P.O. Box 999</b>		City <b>Muskegon</b>	State <b>MI</b>
		ZIP <b>49443</b>	
Accountant Signature 			Date <b>6/30/05</b>

Village of Shelby  
Oceana County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended February 28, 2005

Village of Shelby  
**LIST OF ELECTED AND APPOINTED OFFICIALS**  
February 28, 2005

**ELECTED OFFICIALS**

Jack Cheever .....	Village President
Ross Field .....	President Pro-Tem
Bill Glover .....	Council Member
Steve Lessens .....	Council Member
Pat Morningstar .....	Council Member
Andrea Garcia .....	Council Member
Wayne Tanner .....	Council Member
Betty Poort .....	Clerk
Yolanda Estrada .....	Treasurer

**APPOINTED OFFICIALS**

Sandy Dean .....	Deputy Clerk/Bookkeeper
Randal Phillips .....	Superintendent of Public Works

Village of Shelby

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# VILLAGE OF SHELBY

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## Management's Discussion and Analysis

As management of the Village of Shelby, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village of Shelby for the fiscal year ended February 28, 2005. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter. To those familiar with this prior year financial statements or just new to this document, it is important to know that the Village is presenting this analysis along with these statements in a new format prescribed by the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34).

### FINANCIAL HIGHLIGHTS

- The Village's General Fund balance increased by \$50,040.
- The total net assets of all governmental funds, including the General Fund, increased by \$176,553.
- The net assets in the Water Fund decreased by \$113,098, which is a 13% decrease from the prior year.
- This year the Sewer Fund had a positive change in net assets of \$18,212, an improvement from a decrease of \$45,398 last year.
- The change in net assets in the Major Street Fund was \$62,274. This is due to the fact that there were no major street projects.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village of Shelby's basic financial statements are comprised of three components: 1) governmental-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The governmental-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village of Shelby include general government, public safety, public works, and cultural and recreational activities. The business-type activities of the Village include water and sewer services.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Shelby uses fund accounting. All Village funds can be divided into three categories- governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village of Shelby maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered a major fund. All of the remaining governmental funds are considered major funds.

**Proprietary Funds.** The Village of Shelby has two proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water distribution and sewer operations.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Village's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund, Major Street Fund, Local Street Fund and Debt Service Fund.

### Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Village of Shelby. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of February 28, 2005, the Village's net assets from governmental activities totaled \$3,307,795 (59%) and \$2,319,404 (41%) from business-type activities, creating a total government-wide net assets total of \$5,627,199. Since this is the first year the Village has prepared financial statements following GASB 34, comparisons to fiscal year 2004 are not available. However, these comparison schedules will be provided in future years.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a fund balance of \$1,686,654. This represents the amount of discretionary resources that can be used for general governmental operations.

# VILLAGE OF SHELBY

## Management's Discussion and Analysis

The business-type activities show a total of \$2,319,404 in net assets and \$573,114 (25%) in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets are \$127,594 and \$447,203, respectively.

### Village of Shelby Net Assets

	Governmental Activities 2005	Business-type Activities 2005	Total
Current assets and other assets	\$ 1,793,520	\$ 626,263	\$ 2,419,783
Capital assets	3,070,841	2,963,258	6,034,099
Total assets	4,864,361	3,589,521	8,453,882
Current liabilities	109,700	70,117	179,817
Noncurrent liabilities	1,446,866	1,200,000	2,646,866
Total liabilities	1,556,566	1,270,117	2,826,683
Net assets			
Invested in capital assets, net of related debt	1,621,141	1,717,439	3,338,580
Restricted	-	28,851	28,851
Unrestricted	1,686,654	573,114	2,259,768
Total net assets	\$ 3,307,795	\$ 2,319,404	\$ 5,627,199

### Governmental Activities

Governmental activities increased by \$49,312 during the 2005 fiscal year. The following table shows the results which will be discussed in more detail later in this analysis.

### Business-type activities

At the end of the fiscal year, the net assets for business-type activities increased by \$129,627. See the table below.

### Village of Shelby Change in Net Assets

	Governmental Activities 2005	Business-type Activities 2005	Total
<b>Revenues:</b>			
Program revenues			
Charges for services	\$ 28,201	\$ 384,917	\$ 413,118
Operating grants	210,593	-	210,593
General revenues			
Property taxes	498,879	-	498,879
Grants and contributions not restricted	246,931	-	246,931
Unrestricted investment earnings	32,016	6,692	38,708
Miscellaneous	8,925	25,322	34,247
<b>Total Revenues</b>	<b>1,025,545</b>	<b>416,931</b>	<b>1,442,476</b>



# VILLAGE OF SHELBY

## Management's Discussion and Analysis

### Village of Shelby Change in Net Assets—Continued

	Governmental Activities 2005	Business-type Activities 2005	Total
<b>Expenses:</b>			
General government	\$ 78,590	\$ -	\$ 78,590
Public safety	229,623	-	229,623
Public works	532,444	-	532,444
Culture and recreation	19,338	-	19,338
Interest on long term debt	116,238	-	116,238
Sewer Fund	-	86,931	86,931
Water Fund	-	200,373	200,373
Total expenses	976,233	287,304	1,263,537
Increase in net assets	49,312	129,627	178,939
Net assets – April 1, 2004	3,258,483	2,189,777	5,448,260
<b>Net Assets – March 31, 2005</b>	<b>\$ 3,307,795</b>	<b>2,319,404</b>	<b>\$ 5,627,199</b>

**Governmental Funds.** The focus of the Village of Shelby governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, the Village of Shelby governmental funds reported a combined unreserved fund balance of \$1,686,654. This number represents the unreserved fund balance of \$705,762 in the General Fund and \$980,892 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Village's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,626,699, which consists of a fund balance of \$705,762 in the General Fund plus the fund balance of \$920,937 in other governmental funds.

**Proprietary Funds.** The Village of Shelby's proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. Unrestricted net assets of the Sewer Fund increased by \$18,212, and the Water Fund increased by \$113,098. The result was an overall net increase in the proprietary funds of \$131,310.

### **Budget Changes**

The following is a summary of the budget amendments for year ending February 28, 2005:

#### **General Fund budget amendments**

- Public Safety
- Public Works
- Culture and Recreation
- Capital Outlay

The General Fund amendments consisted of moving funds from Culture and Recreation and Capital Outlay to Public Safety and Public Works to cover expense increases for health care insurance and additional part-time employee wages.

#### **Major Street budget amendments**

- Traffic Services
- Winter Maintenance

Major Street Fund amendments consisted of moving funds from Traffic Services to Winter Maintenance due to a change in how expenses were allocated.

#### **Local Street budget amendments**

- Revenues
- Routine Maintenance
- Winter Maintenance
- Capital Outlay

Local Street Fund revenues were underestimated Revenues, unused Capital Outlay funds were re-allocated to Winter Maintenance to cover additional snow removal/de-icing costs and Routine Maintenance was re-allocated to cover labor/equipment rental.

### **Capital Assets Administration**

#### **Capital Assets.**

The Village of Shelby investment in capital assets for its governmental and business-type activities as of March 31, 2005 totaled \$6,034,099 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, plants and vehicles.

Major capital asset events during the current fiscal year included the following:

- The Fire Barn roof was replaced for \$9,300
- Local Street construction was completed at a cost of \$8,061
- Two vehicles were purchased by the motor pool totaling \$33,910
- One of the Village's plow trucks was refurbished for \$22,992

**Village of Shelby CAPITAL ASSETS  
( Net of Accumulated Depreciation)**

	Governmental Activities 2005	Business-type Activities 2005	Total
Land	\$ 294,828	\$ -	\$ 294,828
Buildings and improvements	73,697	-	73,697
Infrastructure	2,454,042	-	2,454,042
Plants and infrastructure	-	2,963,258	2,963,258
Vehicles and equipment	248,274	-	248,274
Total	<u>\$ 3,070,841</u>	<u>\$ 2,963,258</u>	<u>\$ 6,034,099</u>

Additional information on the Village's capital assets can be found in Note 4 of the "Notes to the Financial Statements" of this report.

**Long-term debt.** At the end of the 2005 fiscal year, the Village of Shelby had total outstanding debt of \$2,771,866 consisting of general obligations bonds, revenue bonds and accumulated compensated absences. The general obligation debt of \$1,410,000 in governmental funds is backed by the full-faith and credit of the Village. Approximately \$1,255,000 of the Village's outstanding debt represented in table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

**Village of Shelby OUTSTANDING DEBT**

	Governmental Activities 2005	Business-type Activities 2005	Total
General obligation bonds	\$ 1,410,000	\$ -	\$ 1,410,000
Accumulated compensated absences	106,866	-	106,866
Revenue bonds	-	1,255,000	1,255,000
Total	<u>\$ 1,516,866</u>	<u>\$ 1,255,000</u>	<u>\$ 2,771,866</u>

The Village's total debt decreased by \$118,637 during the fiscal year. This reduction was due to normal debt payoffs as provided for in the fiscal year 2005 budget, offset by an increase of \$1,363 in compensated absences.

Additional information on the Village of Shelby's long-term debt can be found in Note E of the notes to the financial statements.

### General Economic Overview

In future budgets the Village's finances may continue to dwindle as State Revenue Sharing is reduced and the rising cost of providing services continue.

In 2007, the village will construct needed improvements to the Wastewater Treatment Plant. The estimates for these upgrades are between \$2.1 - \$2.8 million dollars. The improvements will be financed with bonds over a 20 to 40 year period, depending upon the type of financing that is chosen.

Other future expenditures that the Village can expect may include rehab of the elevated water storage facility, replacement of old and undersized water mains, replacement and construction of sidewalks, improvements to the Village parks, tree planting, street maintenance and construction of new Village facilities.

The Village Board and staff remain optimistic that the Village's economic stability will be enhanced by several projects in various stages of development among them is the current housing project known as Northland Crossing's which will provide 13 new homes. One future project that has received preliminary approval but has not begun construction yet is Devonwood Drive, a Senior Condominium project which will provide 28 units. Another is a proposed development in Shelby Township near the U.S. 31 exchange that has inquired into connecting to the Village's water and sewer utilities and agreements could lead to annexation.

Some interest in locating a production facility in Shelby's Industrial Park which could provide additional economic stability as well, by creating jobs, increase tax base and provide a significant amount of revenue to Shelby's utilities.

During the Village's budget process, it was recognized that further stabilization in revenues were needed in the water and sewer utilities. The water utility had a substantial increase in rates in 2001 and it appears, unless determined by an ongoing revenue review process, that no increase will be necessary until the 2006 budget. The sewer utility revenue review indicates that a rate increase is necessary as soon as possible. The rate increase is driven by several factors, (1) Wastewater Treatment Plant upgrades, (2) rate reduction inn 2001 and (3) summer discount. The amount of increase is still under discussion.

The Village of Shelby anticipates taking steps to offset the declining revenues by trying to stabilize the increasing cost of providing services to the community. Some of these steps to offset the declining revenues may include, review of the current employee benefit plan, reducing the level of services or, if it becomes necessary reducing the labor force. The result of these actions may be reflected in the 2006 final expenditures, however, it should be noted that in some cases these actions may have effectively slowed the rate of increase in expenditures but not reduced them.

### Requests for Information

This financial report is designed to provide a general overview of the Village of Shelby's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Shelby, P.O. Box 127, Shelby, Michigan 49455, (231) 861-4400.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

June 27, 2005

Village Council  
Village of Shelby  
Shelby, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Village of Shelby as of and for the year ended February 28, 2005, which collectively comprise the Village of Shelby's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Shelby's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Village of Shelby, as of February 28, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village of Shelby has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of February 28, 2005.

BRICKLEY DELONG

Village Council  
June 27, 2005  
Page 2

The managements' discussion and analysis and budgetary comparison information on pages i through viii and 26 through 29, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Brickley DeLong, PLC*

Village of Shelby  
**STATEMENT OF NET ASSETS**  
February 28, 2005

ASSETS

	Governmental activities	Business-type activities	Total
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 1,627,061	\$ 452,095	\$ 2,079,156
Receivables	54,070	84,337	138,407
Internal balances	1,683	(1,683)	-
Due from other governmental units	110,706	-	110,706
Inventories	-	39,836	39,836
Total current assets	1,793,520	574,585	2,368,105
<b>NONCURRENT ASSETS</b>			
Restricted cash	-	28,851	28,851
Capital assets, net of depreciation			
Nondepreciable	294,828	-	294,828
Depreciable	2,776,013	2,963,258	5,739,271
Bond issue costs, net	-	22,827	22,827
Total noncurrent assets	3,070,841	2,986,085	6,056,926
Total assets	4,864,361	3,589,521	8,453,882
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	-	1,471	1,471
Bonds payable, due within one year	70,000	55,000	125,000
Accrued interest, due within one year	39,700	13,646	53,346
Total current liabilities	109,700	70,117	179,817
<b>NONCURRENT LIABILITIES</b>			
Bonds payable, less amounts due within one year	1,340,000	1,200,000	2,540,000
Compensated absences	106,866	-	106,866
Total noncurrent liabilities	1,446,866	1,200,000	2,646,866
Total liabilities	1,556,566	1,270,117	2,826,683
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,621,141	1,717,439	3,338,580
Restricted for:			
Debt service	-	28,851	28,851
Highways and streets	739,773	-	739,773
Unrestricted	946,881	573,114	1,519,995
Total net assets	\$ 3,307,795	\$ 2,319,404	\$ 5,627,199

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF ACTIVITIES**  
For the year ended February 28, 2005

<i>Functions/Programs</i>	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating grants and contributions	Primary Government		
				Governmental activities	Business-type activities	Total
Primary government						
Governmental activities						
General government	\$ 78,590	\$ 28,201	\$ -	\$ (50,389)	\$ -	\$ (50,389)
Public safety	229,623	-	-	(229,623)	-	(229,623)
Public works	532,444	-	210,593	(321,851)	-	(321,851)
Culture and recreation	19,338	-	-	(19,338)	-	(19,338)
Interest on long-term debt	116,238	-	-	(116,238)	-	(116,238)
Total governmental activities	976,233	28,201	210,593	(737,439)	-	(737,439)
Business-type activities:						
Sewer	86,931	95,499	-	-	8,568	8,568
Water	200,373	289,418	-	-	89,045	89,045
Total business-type activities	287,304	384,917	-	-	97,613	97,613
Total primary government	<u>\$ 1,263,537</u>	<u>\$ 413,118</u>	<u>\$ 210,593</u>	(737,439)	97,613	(639,826)
General revenues:						
Taxes						
Property taxes, levied for general purposes				296,604	-	296,604
Property taxes, levied for debt service				202,275	-	202,275
Grants and contributions not restricted to specific programs				246,931	-	246,931
Unrestricted investment earnings				32,016	6,692	38,708
Miscellaneous				8,925	25,322	34,247
Total general revenues				786,751	32,014	818,765
Change in net assets				49,312	129,627	178,939
Net assets at March 1, 2004				3,258,483	2,189,777	5,448,260
Net assets at February 28, 2005				<u>\$ 3,307,795</u>	<u>\$ 2,319,404</u>	<u>\$ 5,627,199</u>

The accompanying notes are an integral part of this statement.



Village of Shelby  
**BALANCE SHEET**  
 Governmental Funds  
 February 28, 2005

	General Fund	Major Street	Local Street	Debt Service Fund	Total governmental funds
ASSETS					
Cash and investments	\$ 606,753	\$ 292,075	\$ 395,863	\$ 46,023	\$ 1,340,714
Taxes receivable	32,123	-	8,015	13,932	54,070
Due from other governmental units	66,886	26,776	17,044	-	110,706
	<u>705,762</u>	<u>318,851</u>	<u>420,922</u>	<u>59,955</u>	<u>1,505,490</u>
Total assets	<u>\$ 705,762</u>	<u>\$ 318,851</u>	<u>\$ 420,922</u>	<u>\$ 59,955</u>	<u>\$ 1,505,490</u>
FUND BALANCES					
Fund balances					
Reserved for:					
Debt service	\$ -	\$ -	\$ -	\$ 59,955	\$ 59,955
Unreserved					
General Fund	705,762	-	-	-	705,762
Special revenue funds	<u>-</u>	<u>318,851</u>	<u>420,922</u>	<u>-</u>	<u>739,773</u>
Total fund balances	<u>\$ 705,762</u>	<u>\$ 318,851</u>	<u>\$ 420,922</u>	<u>\$ 59,955</u>	<u>\$ 1,505,490</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS**

February 28, 2005

Total fund balance—governmental funds	\$	1,505,490
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 3,730,039	
Accumulated depreciation	<u>(907,472)</u>	2,822,567

Long-term liabilities in governmental activities are not due and payable in the current period  
and are not reported in the governmental funds.

Bonds and notes payable	(1,410,000)	
Compensated absences	<u>(106,866)</u>	(1,516,866)

Accrued interest in governmental activities is not reported in the governmental funds	(39,700)
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Internal service funds are used by management to charge the costs of equipment  
to individual funds. The assets and liabilities of the internal service fund are included  
in the governmental activities in the statement of net assets

	<u>536,304</u>
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Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>3,307,795</u></u>
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The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended February 28, 2005

	General Fund	Major Street	Local Street	Debt Service Fund	Total governmental funds
REVENUES					
Property taxes	\$ 291,808	\$ -	\$ 74,218	\$ 128,057	\$ 494,083
Licenses and permits	50	-	-	-	50
Intergovernmental revenues - state	246,931	156,221	54,372	-	457,524
Charges for services	32,997	-	-	-	32,997
Fines and forfeitures	3,012	-	-	-	3,012
Investment earnings	15,806	3,679	7,141	247	26,873
Other	4,607	1,679	-	-	6,286
Total revenues	595,211	161,579	135,731	128,304	1,020,825
EXPENDITURES					
Current					
General government	68,850	-	-	-	68,850
Public safety	237,358	-	-	-	237,358
Public works	210,325	69,080	74,847	-	354,252
Culture and recreation	19,338	-	-	-	19,338
Debt service					
Principal	-	25,000	-	40,000	65,000
Interest and fees	-	5,225	-	76,888	82,113
Capital outlay	9,300	-	8,061	-	17,361
Total expenditures	545,171	99,305	82,908	116,888	844,272
Net change in fund balances	50,040	62,274	52,823	11,416	176,553
Fund balances at March 1, 2004	655,722	256,577	368,099	48,539	1,328,937
Fund balances at February 28, 2005	\$ 705,762	\$ 318,851	\$ 420,922	\$ 59,955	\$ 1,505,490

The accompanying notes are an integral part of this statement.

Village of Shelby  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 For the year ended February 28, 2005

Net change in fund balances—total governmental funds	\$	176,553
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (164,428)	
Capital outlay	<u>17,361</u>	(147,067)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

65,000

Accrued interest on long-term debt is recorded in the Activities when incurred, but is not reported in the governmental funds until paid.

(39,700)

Increases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

(1,363)

The net revenue of certain activities of the internal service fund is reported with governmental activities.

(4,111)

Change in net assets of governmental activities

\$ 49,312

The accompanying notes are an integral part of this statement.

Village of Shelby  
STATEMENT OF NET ASSETS  
Proprietary Funds  
February 28, 2005

ASSETS

	Business-type activities Enterprise funds			Governmental activities
	Sewer	Water	Total	Internal Service Fund
CURRENT ASSETS				
Cash and investments	\$ 100,754	\$ 351,341	\$ 452,095	\$ 286,347
Accounts receivable	24,464	59,873	84,337	-
Inventories	2,376	37,460	39,836	-
Total current assets	127,594	448,674	576,268	286,347
NONCURRENT ASSETS				
Restricted cash	-	28,851	28,851	-
Capital assets, net				
Plants and systems	1,644,074	2,491,719	4,135,793	-
Equipment and furniture	-	-	-	554,361
Less accumulated depreciation	(745,391)	(427,144)	(1,172,535)	(306,087)
Capital assets, net	898,683	2,064,575	2,963,258	248,274
Bond issuance costs, net of accumulated amortization	-	22,827	22,827	-
Total noncurrent assets	898,683	2,087,402	2,986,085	248,274
Total assets	1,026,277	2,564,927	3,591,204	534,621
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued expenses	-	15,117	15,117	-
Bonds, capital leases and contracts, due within one year	-	55,000	55,000	-
Total current liabilities	-	70,117	70,117	-
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	-	1,200,000	1,200,000	-
Total liabilities	-	1,270,117	1,270,117	-
NET ASSETS				
Invested in capital assets, net of related debt	898,683	818,756	1,717,439	248,274
Restricted for debt service	-	28,851	28,851	-
Unrestricted	127,594	447,203	574,797	286,347
Total net assets	\$ 1,026,277	\$ 1,294,810	2,321,087	\$ 534,621

The assets and liabilities of the Internal Service Fund are included in the fund financial statement, but some are included in the business activities of the Statement of Net Assets.

(1,683)

Total net assets per government-wide financial statements

\$ 2,319,404

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
 Proprietary Funds  
 For the year ended February 28, 2005

	Enterprise funds			Internal service funds
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 94,499	\$ 287,278	\$ 381,777	\$ 131,815
Other	<u>7,519</u>	<u>17,803</u>	<u>25,322</u>	<u>333</u>
Total operating revenues	102,018	305,081	407,099	132,148
OPERATING EXPENSES				
Operations	66,578	120,497	187,075	94,857
Depreciation and amortization	<u>19,827</u>	<u>45,969</u>	<u>65,796</u>	<u>47,804</u>
Total operating expenses	<u>86,405</u>	<u>166,466</u>	<u>252,871</u>	<u>142,661</u>
Operating income (loss)	15,613	138,615	154,228	(10,513)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	1,599	5,093	6,692	5,143
Connection fees	1,000	2,140	3,140	-
Interest expense	-	(32,750)	(32,750)	-
Special item—loss on disposition of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>(423)</u>
Total nonoperating revenue (expenses)	<u>2,599</u>	<u>(25,517)</u>	<u>(22,918)</u>	<u>4,720</u>
Change in net assets	18,212	113,098	131,310	(5,793)
Total net assets at March 1, 2004	<u>1,008,065</u>	<u>1,181,712</u>	<u>2,189,777</u>	<u>540,414</u>
Total net assets at February 28, 2005	<u>\$ 1,026,277</u>	<u>\$ 1,294,810</u>	<u>\$ 2,321,087</u>	<u>\$ 534,621</u>
Change in net assets, per above			\$ 131,310	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>(1,683)</u>	
Change in business-type activities in net assets per government-wide financial statements			<u>\$ 129,627</u>	

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF CASH FLOWS**  
Proprietary Funds  
For the year ended February 28, 2005

	Enterprise funds			Internal service funds
	Sewer	Water	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 108,261	\$ 312,209	\$ 420,470	\$ -
Receipts from interfund services provided	-	-	-	131,815
Payments to suppliers	(22,202)	(44,006)	(66,208)	(53,414)
Payments to employees	(35,087)	(53,016)	(88,103)	(29,443)
Internal activity—payments to other funds	(10,707)	(23,028)	(33,735)	(12,000)
Other receipts (payments)	-	-	-	333
Net cash provided by (used for) operating activities	40,265	192,159	232,424	37,291
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Deposits to restricted cash	-	(12,571)	(12,571)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection fees	1,000	2,140	3,140	-
Purchases of capital assets	-	-	-	(62,754)
Principal and interest paid on capital debt	-	(87,750)	(87,750)	-
Proceeds from sale of fixed assets	-	-	-	9,340
Net cash provided by (used for) capital and related financing activities	1,000	(85,610)	(84,610)	(53,414)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment earnings	1,599	3,430	5,029	5,143
Net increase (decrease) in cash and investments	42,864	97,408	140,272	(10,980)
Cash and investments at March 1, 2004	57,889	252,270	310,159	297,327
Cash and investments at February 28, 2005	<u>\$ 100,753</u>	<u>\$ 349,678</u>	<u>\$ 450,431</u>	<u>\$ 286,347</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</b>				
Operating income (loss)	\$ 15,613	\$ 138,615	\$ 154,228	\$ (10,513)
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	19,827	45,969	65,796	47,804
Change in assets and liabilities				
Receivables, net	6,243	7,128	13,371	-
Inventories	(1,418)	474	(944)	-
Accrued expenses	-	(27)	(27)	-
Net cash provided by operating activities	<u>\$ 40,265</u>	<u>\$ 192,159</u>	<u>\$ 232,424</u>	<u>\$ 37,291</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF FIDUCIARY NET ASSETS**  
 Fiduciary Funds  
 February 28, 2005

	Pension Trust Fund	<u>Agency Fund</u> Payroll Fund
<b>ASSETS</b>		
Cash and investments	\$ <u>221,217</u>	\$ <u>272</u>
<b>LIABILITIES</b>		
Deposits held for others	\$ <u>-</u>	\$ <u>272</u>
<b>NET ASSETS</b>		
Held in trust for benefits and other purposes	\$ <u>221,217</u>	

The accompanying notes are an integral part of this statement.



Village of Shelby  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
 Fiduciary Funds  
 For the year ended February 28, 2005

	Pension Trust Fund
	<hr/>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 12,104
Plan members	<hr/> 11,947
Total contributions	24,051
Investment earnings	<hr/> 6,510
Total additions	30,561
<b>DEDUCTIONS</b>	
Benefits	7,000
Fees	<hr/> 250
Total deductions	7,250
Change in net assets	23,311
Net assets at March 1, 2004	<hr/> 197,906
Net assets at February 28, 2005	\$ <hr/> <hr/> 221,217

The accompanying notes are an integral part of this statement.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Village of Shelby (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Effective March 1, 2004, the Village adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balance at March 1, 2004—governmental funds	\$ 1,328,937
Capital assets, net	2,969,634
Internal Service Fund equity	540,415
Long-term liabilities	(1,475,000)
Compensated absences	<u>(105,503)</u>
Restated net assets at March 1, 2004	<u>\$ 3,258,483</u>

**1. Reporting Entity**

The Village of Shelby (Village) is a municipal corporation governed by a seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Since no organization meets this criteria, none are included in the financial statements.

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**2. Government-Wide and Fund Financial Statements—Continued**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund and Local Street Fund account for money distributed by the State of Michigan for street maintenance. The Village has elected to show these funds as major funds.

The Debt Service Fund is used to account for principal and interest payments on the Village's general debt.

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued**

The Village reports the following two major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the Village's water distribution.

Additionally, the Village reports the following fund types:

The Pension Trust Fund accounts for the activities of the Village's employees' retirement plan, which accumulates resources for pension benefit payments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Enterprise Fund and Water Enterprise Fund are charges to customers for sales and services. The Village also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity**

**a. Deposits and Investments**

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the Village's investment pool. all investments are stated at cost or amortized cost.

**b. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of September 15 are turned over by the Village to the County for collection. Collection of delinquent personal property taxes as of September 15 remains the responsibility of the Village's Treasurer. Since substantially all Village property taxes levied are current receivables, tax revenues are recognized when levied.

The 2004 State taxable value for the Village was \$25,733,872 on which ad valorem taxes were levied at 10.95 mills for operating purposes, 2.73 mills for Local Street and 4.75 for Debt Service. These amounts are recognized in the respective funds on the financial statements.

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**c. Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out(FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**d. Restricted Assets**

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**e. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Public domain infrastructure	20
Plants and systems	20-80
Vehicles and equipment	5-10

**f. Compensated Absences**

Village employees are granted vacation and sick leave in varying amounts based on length of service. Accumulated vacation leave must be taken no later than two years after it is earned. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 80 days for employees. Unused accumulated sick leave is paid to employees who resign or retire, limited to 50 percent of days accumulated up to a maximum of 35 days. All vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**g. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**h. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first Monday of January, the Village President submits to the Village Council a proposed operating budget for the year commencing the following March
  1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than the second Monday in February, the budget is legally enacted through passage of a resolution.

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Budgetary Information—Continued**

- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

**NOTE C—DEPOSITS AND INVESTMENTS**

**1. Deposits**

The Village's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of February 28, 2005, the Village's carrying amount of deposits was \$287,359 and the bank balance was \$311,091. Of the bank balance, \$169,981 was covered by federal depository insurance.

**2. Investments**

As of February 28, 2005, the Village's investments represented holdings in certificates of deposit with original maturities exceeding six months, investment pools and mutual funds. During the year ended February 28, 2005, the Village's investments were only in this type of investment.

The Village's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Village's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of February 28, 2005, the Village's fair value in those pools and mutual funds were \$1,743,904.

	Category		
	<u>1</u>	<u>2</u>	<u>3</u>
Certificates of Deposit	\$ <u>77,017</u>	\$ <u>-</u>	\$ <u>-</u>



Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**2. Investments—Continued**

The composition of pension trust fund investments at fair value is included in the previous paragraph and shown in the following table:

Guaranteed income funds	\$ 157,218
Managed Domestic stock funds	60,498
International stock funds	2,933
Managed Bond funds	<u>568</u>
	<u>\$ 221,217</u>

**3. Restricted Assets**

Restrictions are placed on assets by bond ordinance and Village Council action. At February 28, 2005, restricted cash in the Enterprise funds are restricted as follows:

Water Fund	
Replacement	\$ <u>28,851</u>

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2005 was as follows:

**Primary Government:**

	Balance March 1, 2004	Additions	Deductions	Balance February 28, 2005
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 294,828	\$ -	\$ -	\$ 294,828
Capital assets, being depreciated:				
Buildings and other improvements	429,840	9,300	-	439,140
Public domain infrastructure	2,988,011	8,061	-	2,996,072
Vehicles and equipment	<u>637,944</u>	<u>62,754</u>	<u>146,338</u>	<u>554,360</u>
Total capital assets being depreciated	4,055,795	80,115	146,338	3,989,572
Less accumulated depreciation for:				
Buildings and other improvements	354,619	10,824	-	365,443
Public domain infrastructure	388,426	153,604	-	542,030
Vehicles and equipment	<u>394,323</u>	<u>47,804</u>	<u>136,041</u>	<u>306,086</u>
Total accumulated depreciation	<u>1,137,368</u>	<u>212,232</u>	<u>136,041</u>	<u>1,213,559</u>
Total capital assets, being depreciated, net	<u>2,918,427</u>	<u>(132,117)</u>	<u>10,297</u>	<u>2,776,013</u>
Capital assets, net	<u>\$ 3,213,255</u>	<u>\$(132,117)</u>	<u>\$ 10,297</u>	<u>\$ 3,070,841</u>

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE D—CAPITAL ASSETS—Continued**

	Balance March 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance February 28, <u>2005</u>
<b>Business-type activities:</b>				
Capital assets, being depreciated:				
Plants and systems	\$ 4,157,051	-	-	\$ 4,157,051
Less accumulated depreciation for:				
Plants and systems	<u>1,129,358</u>	<u>64,435</u>	-	<u>1,193,793</u>
Capital assets, net	\$ <u>3,027,693</u>	\$ <u>(64,435)</u>	\$ -	\$ <u>2,963,258</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Government activities:</b>	
General government	\$ 10,486
Public safety	338
Public works, including depreciation of general infrastructure assets	153,604
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>47,804</u>
Total depreciation expense - governmental activities	\$ <u>212,232</u>
<b>Business-type activities:</b>	
Sewer	\$ 19,827
Water	<u>44,608</u>
Total depreciation expense - business-type activities	\$ <u>64,435</u>

**NOTE E—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Village for the year ended February 28, 2005.

	Balance March 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance February 28, <u>2005</u>	Due within <u>one year</u>
<b>Governmental activities:</b>					
General obligation bonds	\$ 1,475,000	\$ -	\$ 65,000	\$ 1,410,000	\$ 70,000
Compensated absences	<u>105,503</u>	<u>1,363</u>	-	<u>106,866</u>	-
Governmental activity long-term liabilities	\$ <u>1,580,503</u>	\$ <u>1,363</u>	\$ <u>65,000</u>	\$ <u>1,516,866</u>	\$ <u>70,000</u>

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE E—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

	Balance March 1, 2004	Additions	Deductions	Balance February 28, 2005	Due within one year
<b>Business-type activities:</b>					
Revenue bonds	\$ <u>1,310,000</u>	\$ <u>-</u>	\$ <u>55,000</u>	\$ <u>1,255,000</u>	\$ <u>55,000</u>
<b>Governmental activities:</b>					
<b>General obligation bonds:</b>					
\$1,500,000 General Obligation Unlimited Tax bonds dated March 1997 for road improvements due in semi-annual installments of \$45,000 to \$125,000 through September 2019; plus interest at rates varying from 5.85% to 7.3%				\$ 1,310,000	
\$175,000 Michigan Transportation Fund bonds of 1999 due in annual installments of \$55,000 through September 2008; plus interest at rates varying from 4% to 4.55%				<u>100,000</u>	
				1,410,000	
Compensated absences				<u>106,866</u>	
				\$ <u>1,516,866</u>	
<b>Business-type activities:</b>					
<b>Revenue bonds:</b>					
\$1,365,000 Water Supply System Revenue bonds, Series 2002 due in annual installments of \$55,000 to \$67,000 through October 2022; plus interest at 2.5%				\$ <u>1,255,000</u>	

The general obligation bonds are backed by the full faith and credit of the Village.

The Village was in compliance in all material respects with all the revenue bond ordinances at February 28, 2005.

Annual debt service requirements to maturity for debt outstanding as of February 28, 2005 follows:

Year ending February 28	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 70,000	\$ 79,328	\$ 55,000	\$ 31,688
2007	75,000	75,717	60,000	29,250
2008	75,000	72,043	60,000	27,750
2009	85,000	68,225	60,000	26,250
2010	70,000	63,788	60,000	24,750
2011-2015	475,000	200,712	335,000	91,625
2016-2020	560,000	91,785	375,000	59,875
2021-2023	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>12,625</u>
Total	\$ <u>1,410,000</u>	\$ <u>651,598</u>	\$ <u>1,255,000</u>	\$ <u>303,813</u>

Village of Shelby  
**NOTES TO THE FINANCIAL STATEMENTS**  
February 28, 2005

**NOTE F—OTHER INFORMATION**

**1. Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

**2. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

The Village is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Village.

**NOTE G—PENSION PLAN**

The Village of Shelby provides pension benefits for all of its board members and full-time employees through a money purchase plan. The plan requires the Village to contribute 25 percent of covered payroll. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. The Plan is administered through Lincoln Financial Group, an independent third party, contributions are based on annual earnings. For the year ended February 28, 2005, the contribution to the Plan by the Village was approximately \$12,104.

**NOTE H—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 41 percent of General Fund revenues.

**NOTE I—SUBSEQUENT EVENT**

On March 1, 2005, the Village refinanced the General Obligation Unlimited Tax Bonds dated 1997. The new bonds, dated March 2005, have interest rates varying from 2.4 percent to 3.37 percent. The total debt issued was \$1,325,000.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Village of Shelby  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended February 28, 2005

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 266,000	\$ 266,000	\$ 291,808	\$ 25,808
Licenses and permits	50	50	50	-
Intergovernmental - state	209,424	209,424	246,931	37,507
Charges for services	33,000	33,000	32,997	(3)
Fines and forfeitures	1,200	1,200	3,012	1,812
Investment earnings	8,000	8,000	15,806	7,806
Other	3,350	3,350	4,607	1,257
Total revenues	521,024	521,024	595,211	74,187
EXPENDITURES				
Current				
General government				
Village Council	6,940	6,940	5,490	1,450
Elections Commission	2,050	950	823	127
Village Clerk	26,082	25,582	16,754	8,828
Village Treasurer	16,482	11,632	8,811	2,821
Village hall/grounds	6,591	6,591	6,077	514
Other general government	32,300	32,300	30,895	1,405
Public safety				
Police Department	232,343	240,959	237,358	3,601
Public works				
Department of Public Works	220,370	244,861	210,325	34,536
Culture and recreation				
Parks	27,337	21,980	19,338	2,642
Capital outlay	19,000	8,200	9,300	(1,100)
Total expenditures	589,495	599,995	545,171	54,824
Net change in fund balances	\$ <u>(68,471)</u>	\$ <u>(78,971)</u>	50,040	\$ <u>129,011</u>
Fund balance at March 1, 2004			<u>655,722</u>	
Fund balance at February 28, 2005			\$ <u>705,762</u>	

Village of Shelby  
**BUDGETARY COMPARISON INFORMATION**  
Major Street  
For the year ended February 28, 2005

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - state	\$ 135,000	\$ 135,000	\$ 156,221	21,221
Investment earnings	2,400	2,400	3,679	1,279
Other	1,500	1,500	1,679	179
Total revenues	138,900	138,900	161,579	22,679
EXPENDITURES				
Current				
Public works				
Routine maintenance	29,760	29,760	20,039	9,721
Traffic services	17,571	5,871	4,064	1,807
Winter maintenance	39,565	51,265	39,365	11,900
Bookkeeping-Administration	7,150	7,150	5,612	1,538
Debt service				
Principal	25,000	25,000	25,000	-
Interest and fees	6,300	6,300	5,225	1,075
Capital outlay	13,554	13,554	-	13,554
Total expenditures	138,900	138,900	99,305	39,595
Net change in fund balances	\$ -	\$ -	62,274	\$ 62,274
Fund balance at March 1, 2004			256,577	
Fund balance at February 28, 2005			\$ 318,851	

Village of Shelby  
**BUDGETARY COMPARISON SCHEDULE**  
 Local Street  
 For the year ended February 28, 2005

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 65,500	\$ 71,115	\$ 74,218	\$ 3,103
Intergovernmental revenues - state	36,500	43,185	54,372	11,187
Investment earnings	-	6,200	7,141	941
Total revenues	102,000	120,500	135,731	15,231
EXPENDITURES				
Current				
Public works				
Routine maintenance	22,774	28,074	25,489	2,585
Traffic services	13,183	13,183	4,058	9,125
Winter maintenance	39,898	58,398	39,337	19,061
Bookkeeping-Administration	6,900	6,900	5,963	937
Capital outlay	19,245	13,945	8,061	5,884
Total expenditures	102,000	120,500	82,908	37,592
Net change in fund balances	\$ -	\$ -	52,823	\$ 52,823
Fund balance at March 1, 2004			368,099	
Fund balance at February 28, 2005			\$ 420,922	



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

June 27, 2005

Village Council  
Village of Shelby  
Shelby, Michigan

In planning and performing our audit of the financial statements of the Village of Shelby for the year ended February 28, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village of Shelby's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



## REPORTABLE CONDITIONS

Recommendation 1: The internal control procedures should be further segregated within the utility record keeping function.

During our review of the internal controls, we noted that the clerk maintains numerous responsibilities within the utility record keeping function, among them processing utility billings, cash receipts, subsidiary ledger postings and general ledger journal entries to record the revenues. The maintenance of these responsibilities by one individual provides the opportunity for errors and misappropriations of funds to go undetected.

The Village should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. The implementation of an array of segregated duties, including review and approval procedures by the Village Council and bookkeeper, could reduce the opportunity for errors and misappropriations of funds to go undetected.

Recommendation 2: The compensated absence policy should be adhered to.

During our audit, we noted that the written policy for accruing compensated absences was not being adhered to. Hours were allowed to carry over for one year longer than the written policy reflected.

The Village should follow the written employee handbook when allowing compensated absence time to accrue.